



FIGHTING FRIENDLY FRAUD

WHITEPAPER

Fighting Friendly Fraud: How To Recoup Your Restaurant's Chargebacks

SUMMARY

Since early 2020, consumers have substantially increased their use of third-party delivery apps, such as Uber Eats and Grub Hub, for online food orders. As online orders have increased, chargebacks have skyrocketed. **In fact, restaurant owners say chargebacks traditionally at .5-1.0% now range from 2.5-4.1%.** In this paper, ITech Digital explains how friendly fraud contributes to increased chargebacks and how you can quickly recover chargeback losses.

Since 2020, restaurants have seen a

14%

increase in chargebacks.



INDUSTRY MARKET TRENDS

Digital Orders and Deliveries

According to a recent article in QSR Magazine, Market Research and Consumer Trends company, NPD, reported that restaurant online orders ballooned 124 percent in the fiscal year ending in March 2021. This comes as no surprise a year into the COVID-19 pandemic, which changed the way restaurants had to operate to stay in business.

In addition to total online orders, the restaurant industry also recognized a 140 percent increase in online delivery orders. QSRs saw online delivery orders increase 111 percent and full-service restaurants experienced a 237 percent increase. Meanwhile, online delivery orders made through third-party apps, such as Door Dash and Uber Eats, increased a whopping 207 percent.

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increase in online delivery orders for the restaurant industry

QSR delivery orders increased by

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237%

increase in online delivery orders for full-service restaurants

Online delivery orders through 3rd party apps increased

207%

THIRD-PARTY DELIVERY APPS & CHARGEBACKS

As online orders and third-party delivery services have increased, so have chargebacks. In fact, and as previously mentioned, chargebacks have increased to comprise a significantly larger percentage of overall sales.

For companies operating on thin margins, the financial loss presents a big problem. The example below shows what a 3.5% chargeback rate equates to in monthly loss for a QSR that averages \$1.5 MM in annual revenue.

QSR Monthly Sales Volume	\$125,000
Average Cost of Meal	\$6.36
3.5% Chargeback Rate	\$4,375 monthly loss

Full-service restaurants experience fewer chargebacks than QSRs; however, the average cost per meal is higher. Let's assume the same sales revenue for a full-service restaurant with lower volume and higher prices.

QSR Monthly Sales Volume	\$125,000
Average Cost of Meal	\$78.83
1.1% Chargeback Rate	\$1,375 monthly loss

To make matters worse, third-party delivery services charge restaurants up to 30% for the service. Some restaurants pass that cost through to customers in its entirety but many only partially increase their food prices to make up for the gap. For the latter, they lose even more.

It makes sense that the number of chargebacks increases as the number of online orders increases. The issue is that the percentage of chargebacks to total sales is increasing, resulting in direct financial loss. Why is this happening?

Increased Chargebacks Consist Largely of Friendly Fraud

Food service chargebacks occur as a result of criminal fraud, friendly fraud, and merchant error. Criminal fraud is when someone fraudulently uses someone's stolen credit card or credit card data. These legitimate chargebacks make up 10-20% of chargebacks. Merchant error occurs when there is a mistake and the restaurant is to blame, and it makes up 10-20% of chargebacks. The bulk of current chargebacks—anywhere from 60-80%—are due to friendly fraud.



WHAT IS FRIENDLY FRAUD?

Friendly fraud occurs when a consumer disputes a charge—knowingly or unknowingly—for any reason other than criminal fraud or not receiving their food. Here are some examples:

- ▶ **A customer is missing an order of fries. Rather than reaching out to the restaurant, they dispute the entire charge.**
- ▶ **A customer is dissatisfied with the length of time it took to get the food or the meal itself. Instead of contacting the restaurant, they dispute the charge.**
- ▶ **A customer doesn't recognize the charge on their bank or credit card statement when it comes, especially if they order through a third-party app, so they dispute it.**
- ▶ **A child orders food without notifying their parent.**
- ▶ **A customer knowingly orders a meal and then disputes it to avoid the expense.**
- ▶ **A delivery driver decides to skirt the system, sometimes with another party who orders the food.**

For most of these scenarios, the customer should reach out to the restaurant and try to resolve the issue directly with a manager. Unfortunately, many customers either don't realize this or think the procedure is too cumbersome. Still others simply want a free meal.

The chargeback remediation process itself is a cumbersome one for managers and owners. For many, it isn't worth the time it takes to investigate and challenge a chargeback when compared to the amount of the return. However, increasing chargebacks start to cut in to profit margins, which leaves the owner in a precarious place. That is to say, they have to decide between spending hours researching chargebacks or eat the increasing cost. Fortunately, there's another solution. Actually, there are two.

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1. PROVIDE DIRECT, EASY ACCESS FOR CUSTOMER CONTACT AND COMPLAINTS

Online orders using third-party apps are meant to provide a seamless process for the consumer, and they usually do—unless something goes awry. When that happens, there’s no clear communication or process for the consumer to remedy the issue. Rather than look up the number to the restaurant and make a call, it’s easier to just click a button and dispute a charge.

One solution to this is to make the problem resolution process as seamless as the dispute

one. Be sure to include the restaurant phone number and include information on how to submit a complaint/issue with as few clicks as possible. Optimizing the customer’s online experience is not only necessary to combat chargebacks, but also to maintain loyalty and mature your digital capabilities as consumer behaviors continue to move in a digital direction.

2. USE SOLINK’S™ DELIVERY ORDER INSIGHTS TO TACKLE FRIENDLY FRAUD

The second solution to address friendly fraud and internal errors is one that eliminates all the time and effort involved in disputing your chargeback fees. “Delivery Order Insights” by Solink™ integrates your video surveillance, your POS, and the delivery service software to provide detailed information that is easily accessible. The choice is yours. You can spend 60-90 minutes combing through monthly statements, identifying chargebacks, and manually researching them. You can take the loss. Or you can research

chargebacks in less than one minute with three simple clicks. Here’s how it works:

- ▶ **Use the platform to quickly find chargebacks.**
- ▶ **Click on the transaction to view the chargeback, itemized receipt, and corresponding video.**
- ▶ **Action the chargeback accordingly.**

SOLINK



Step 1:
Search



Step 2:
Analyze



Step 3:
Action

Delivery Order Insights is a multilayered solution that offers numerous benefits, including:

- ▶ **Video and data analytics.**
- ▶ **API that integrates with all major third-party delivery companies, your video surveillance, and POS, with the ability for additional integrations as business needs change.**
- ▶ **Ability to leverage existing cameras and equipment.**
- ▶ **Customizable dashboard and search features that allow deeper insight to business operations and analytics.**
- ▶ **Scalability.**
- ▶ **Quick and easy automatic access to chargeback data and the ability to dispute, add notes, save, and share the information.**

Why a Wait-and-See Approach Won't Work

Some food service owners think chargebacks will normalize over time, but why would they if owners don't take action on chargebacks? Another approach is to pass on chargeback costs to the consumer by raising prices, but that's a risky move, and here's why.

QSR food prices already increased 6.2 percent from June 2020 to June 2021, according to the June 2021 Consumer Price Index Report released by the U.S. Department of Labor. The cost of beef, poultry, and other food items continue to climb along with the cost of labor. In fact, inflation may be a growing concern for the U.S. economy, not to mention the food and beverage industry, which directly ties to disposable income. The

low cost of QSR food has long been appealing to consumers, but that can change if the cost doesn't remain low. Thus, restaurateurs will have to find ways to keep costs down and recovering chargeback losses is one way to do that.

Stop Friendly Fraud and Recover Lost Revenue

Market experts agree the demand for online food orders will continue to increase through 2025. To stay competitive in an increasingly digital economy, QSR owners should mature their online capabilities both for internal operations and for the external customer experience. **If you want to learn more about how to recoup chargeback losses and position your business for a digitally driven future, call ITech at (866) 733-6673 or request a free online demo.**


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